

Statement by the Honorable SUZUKI Shunichi
Governor of the IMF for Japan
at the Forty-Seventh Meeting of the International Monetary and Financial Committee
(April 14th, 2023)

1. The Global Economy and the Japanese Economy

Japan reiterates its strongest condemnation against Russia, which has continued its war of aggression for over a year. We again stress that this war goes squarely against the principle of the rule of law in the international community and is absolutely intolerable.

Global Economy

Russia's war of aggression against Ukraine continues to cause severe price increases, energy supply constraints, and supply chain disruptions, amid the global economy facing downside risks and uncertainties. Ending this war is the most important factor for global economic recovery and international cooperation. As the international community unites and continues its economic assistance to Ukraine, we call on the IMF to continue to play a central role. We welcome the approval by the IMF Executive Board of the Extended Fund Facility (EFF) at the end of last month, which will provide \$15.6 billion to Ukraine.

With recent developments in financial markets, we should continue to pay closer attention to global financial stability. In addition, the debt situation in low- and middle-income countries remains challenging, as many countries have significantly tightened monetary policies to address inflation, and global financial conditions have become increasingly tight.

These circumstances call for member countries to flexibly respond to the current crisis by addressing inflation through appropriate policy responses while ensuring policy space under credible fiscal rules and supporting vulnerable groups through temporary and targeted fiscal policies. Once the recovery is firmly established, taking concrete steps to preserve long-term fiscal sustainability is also essential. Given the current financial situation, authorities need to continue to monitor the situation closely and prepare to take the necessary actions to maintain the resilience of the global financial system.

Japanese Economy

The Japanese economy is expected to keep recovering with the effects of the policy supports, under the “with corona” phase. However, amid ongoing global economic developments, particularly monetary tightening, we need to be vigilant against the risk of a downturn in overseas economies putting downward pressure on the Japanese economy. The Government endeavors to realize a virtuous cycle of growth and distribution by accelerating labor market reforms, such as reskilling support to promote structural wage increases, while appropriately responding to the ongoing price increases, and promoting investment and reforms focusing on green, digital, and start-up support.

Despite the recent financial situation, Japanese financial institutions generally have sufficient capital and liquidity buffers, and we assess that Japan's current financial system is sound and stable as a whole. We are mindful of various possible risks and will continue to carefully monitor developments in the domestic and international economy as well as financial markets along with their impact on the stability of the financial system, with a strong sense of vigilance.

2. Our Expectations to the IMF: Responding to Challenges Member Countries are Facing

As challenges toward global economic stability and development continue, we expect the IMF to play a central role in multilateral cooperation based on rule of law and trust, and make further contributions to address the adversities of member countries.

SDR Channeling

Japan raises its pledge from 20% (USD 8.4 billion) to 40% (USD 16.7 billion) of its newly allocated SDRs toward the total global ambition of USD 100 billion. This will further strengthen our support for low-income and vulnerable countries when IMF support for these countries has become even more important. As the largest contributor to the Poverty Reduction and Growth Trust (PRGT), Japan will completely fulfill the IMF's request for subsidy resources (USD 230 million contribution in total) with additional contributions by channeling a portion of the additional SDRs to the Deposit and Investment Account (DIA). We support the IMF to strengthen its efforts in securing needed subsidy resources and request the IMF to make steadfast progress in preparing options for the use of internal resources toward a comprehensive review of Concessional Financing and Policies that will discuss the PRGT funding strategy beyond 2025. In addition, we would consider further contributions to the loan resources of the PRGT or the Resilience and Sustainability Trust (RST) at an appropriate time, reflecting the contributions from other members. If conditions such as ensuring the liquidity and safety of SDR as a foreign reserve asset are fulfilled, we would also consider the option of SDR channeling through MDBs. We continue to call for further pledges and their timely delivery from all willing and able countries.

Debt Issues

The risks of debt vulnerabilities are elevated not only in low-income countries (LICs) but also in some middle-income countries (MICs).

For LICs, it is crucial that the creditor committees implement debt treatments under the Common Framework in a swift and predictable manner. For vulnerable MICs, such as Sri Lanka, all creditors should work together to restore debt sustainability in a coordinated manner.

It is essential to improve debt data transparency and accuracy in order to prevent future debt crises. Japan has long promoted these efforts, and this year as the G7 President, Japan leads the Data Sharing Exercise where creditor countries share their lending data with the World Bank. We expect this exercise will become an established practice, and more creditor countries will start sharing their data. We also encourage the IMF to present reform options on debt transparency. Given the growing concerns on some opaque collateralized debts, we request the IMF, together with the World Bank, to conduct analysis on and promote best practices in using this type of financing. We also look forward to constructive discussions among all participants of the Global Sovereign Debt Roundtable led by the IMF and the World Bank, which will help promote mutual understanding and find ways to swiftly move the process forward.

Capacity Development and Digital Money

Many countries, especially EMDEs, are making progress toward the introduction of Central Bank Digital Currencies (CBDCs). It is critical to design institutional and regulatory frameworks with due consideration to the potential impacts of CBDCs on financial stability and capital flows, and to reduce associated spillover

effects on other countries' monetary policy and the international monetary system.

Japan supports the IMF's work to develop the CBDC Handbook, which gives practical guidance to address related risks. We expect the IMF to help member countries explore the introduction of CBDCs and assess their risks through its capacity development, drawing on the Handbook. Given the wide-ranging policy issues and the rapid progress in technologies pertaining to CBDCs, the IMF should draw on the expertise of other international organizations, national authorities and a wide range of stakeholders.

Japan supports the IMF's efforts to further integrate its capacity development with surveillance and lending activities. Appropriate prioritization and ensuring ownership of the various needs of recipient countries remain critical to improving the effectiveness of capacity development. With the aim of further improvement of capacity development activities, Japan, in the upcoming review of the Capacity Development Strategy scheduled for later this year, also encourages the IMF to analyze and assess the effectiveness of its activities to date and challenges going forward, including through strengthening project monitoring by utilizing the Results-Based Management (RBM) framework.

Furthermore, the IMF should continue providing capacity development in traditional areas such as debt management and revenue mobilization of which fragile and conflict-affected states (FCS) and low-income countries are most in need. Japan, as a leading donor of the IMF's capacity development for many years, stands ready to proactively provide support.

3. Our Expectations to the IMF: Other Important Policy Matters

The 16th General Review of Quotas (GRQ)

In the discussions of the 16th GRQ, Japan will continue to contribute constructively and pragmatically. To this end, we emphasize the following points.

Even in the emergency situations since the pandemic, thanks to activation of various layers of the global financial safety net (GFSN) and strong policy responses, the current amount of total lending commitments is only slightly above a quarter of the GRA lending capacity, and even the New Arrangements of Borrow (NAB) has not been activated. This clearly demonstrates the sufficiency of current Fund resources.

Amid the significant fluctuation in the global economy, if the Fund were to cover tail risk exclusively through quota, member countries would need to allocate valuable funds to the Fund even under ordinary conditions, which is quite inefficient. In this regard, borrowed resources should continue to play an important role.

The current quota formula has many shortcomings, and we need to keep exploring its reform. In order to secure financial resources for the IMF to support member countries, in particular for LICs, we urge to institutionalize incentive mechanisms for these contributions by adding a variable of voluntary financial contributions in the quota formula.

If agreement on the formula is not eventually reached, selective increases should not be an option. An equiproportional increase could be considered as a pragmatic way towards facilitating consensus. Here, in case a limited share alignment is necessary, we should use ad hoc methods based on VFCs.

Cooperation with Regional Financing Arrangements (RFAs)

In order for the GFSN to function effectively, it is also important to further strengthen RFAs. Japan, as the co-chair of the ASEAN+3 finance track this year, is promoting further enhancement of the regional financial safety net through ASEAN+3 financial cooperation. More specifically, we have commenced a full-fledged discussion on strengthening the RFAs including creation of a possible new lending facility under the Chiang Mai Initiative Multilateralization (CMIM), which can be readily available to member countries in the event of external shocks such as natural disasters and pandemics.

Staff Diversity

Lastly, Japan has been contributing to the IMF not only through financial resources and policy inputs but also well-qualified Fund staff. The IMF's global coverage warrants its staff composition to be more diversified with appropriate regional balance, which is key to promoting more effective operations. Japan will continue to cooperate with and contribute to the IMF in this regard.